

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 AID-05 CIAE-00 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 /080 W

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R 191540Z NOV 76

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 1227

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

USMISSION BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

USMISSION NATO

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

USDOC WASHDC

C O N F I D E N T I A L MOSCOW 18239

DEPARTMENT ALSO PASS DEPARTMENT OF THE TREASURY

USDOC FOR BEWT

E.O. 11652: GDS

TAGS: ETRD, ECON, COMECON, BTIO, UR

SUBJECT: CONVERTIBLE CURRENCY TRADE IN CEMA

REF: MOSCOW 16243

1. SUBJECT OF CONVERTIBLE CURRENCY TRADE IN COUNCIL FORMUTUAL  
ECONOMIC AID (CEMA) AREA HAS ARISEN IN RECENT CONVERSATIONS.  
GERMAN E/C MINISTER RECENTLY STATED FLATLY TO E/C COUNSELOR THAT THIS  
TRADE EXISTS IN SUBSTANTIAL EXTENT. HE CONTENDED THAT SALES IN  
EXCESS OF VOLUME AGREED BETWEEN TWO MEMBER STATES OF CEMA, AS FOR  
EXAMPLE SALE OF SOVIET CRUDE OIL TO POLAND, ARE PAID IN HARD  
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CURRENCY. ASKED WHY SOVIETS APPEAR RELUCTANT TO SELL MORE OIL

TO EAST EUROPEAN PARTNERS IF PAID IN HARD CURRENCY, GERMAN E/C MINISTER SAID THAT PRICE, ALTHOUGH ABOVE THAT PAID IN RUBLES FOR VOLUME COVERED BY TRADE AGREEMENT, IS LOWER THAN THAT WHICH SAME OIL WOULD BRING IF EXPORTED OUTSIDE CEMA.

2. SAME SUBJECT CAME UP SUBSEQUENTLY AT NOV 12 WESTERN E/C COUNSELORS MEETING. JUNIOR OFFICIAL SITTING IN FOR FRG SAID GERMANS KNOW HARD CURRENCY TRADE EXISTS BECAUSE POLES AND EAST GERMANS HAVE TOLD THEM SO. OTHERS PRESENT QUESTIONED WHETHER TRADE VOLUME INCREMENTAL TO AGREED PLAN WAS NOT MERELY CALCULATED IN HARD CURRENCY AND THEN BALANCED BY COUNTER-PURCHASE OF, FOR EXAMPLE, POLISH OR EAST GERMAN EQUIPMENT "EARMARKED" FOR SALE TO THE WEST. GERMAN ACKNOWLEDGED THIS MIGHT BE THE CASE.

3. ON NOVEMBER 16 LOCAL DOW CHEMICAL REPRESENTATIVE (PROTECT) STATED THAT DOW RECENTLY HAD TWO COMMERCIAL TRANSACTIONS INVOLVING RESALE OF COMMODITY FROM ONE CEMA MEMBER TO ANOTHER. HE DID NOT IDENTIFY COMMODITIES, VOLUME OR VALUE. IN ONE CASE DOW HAD PURCHASED COMMODITY FROM ROMANIA, AT SOVIET REQUEST, FOR RESALE TO USSR. IN THE SECOND, POLAND HAD PURCHASED FROM DOW A CHEMICAL PRODUCT DOW HAD ACQUIRED IN THE USSR. SOURCE COULD NOT EXPLAIN WHY DOW'S PARTICIPATION IN EITHER TRANSACTION WAS REQUIRED, OTHER THAN TO STATE THAT DOW LABEL ON A PRODUCT IS THOUGHT TO ADD TO ITS QUALITY STATUS.

4. COMMENT: FULL DETAILS ARE OBVIOUSLY LACKING, ESPECIALLY INFORMATION ON THE AMOUNTS INVOLVED. IT STILL REMAINS UNCLEAR WHETHER SO-CALLED "HARD CURRENCY" TRADE INVOLVES AN ACTUAL PAYMENT OF HARD CURRENCY. IN ABSENCE OF FULL FACTS, INCLUDING MANY PERHAPS UNKNOWN TO DOW, IT IS DIFFICULT TO SPECULATE ON TWO TRANSACTIONS MENTIONED IN PARA 3. IT DOES OCCUR TO US, HOWEVER, THAT IF ONE CEMA PARTNER WISHED TO AVOID PROLONGED NEGOTIATIONS ON SMALL QUANTITIES OF "ABOVE-QUOTA" DELIVERIES, AND THE POSSIBILITY OF HAVING TO DELIVER A HARD-CURRENCY EARNING COMMODITY IN RETURN, WHICH MIGHT LEAVE THEM VULNERABLE TO SIMILAR CLAIMS FROM OTHER CEMA COUNTRIES, THE DOW TRANSACTION OFFERS THEM A MEANS TO DO SO.  
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## Message Attributes

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**To:** STATE  
**Type:** TE  
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